VENTURA COUNTY
TRANSPORTATION COMMISSION

04945

SINGLE AUDIT REPORT ON
FEDERAL AWARDS

Year Ended June 30, 2008

VENTURA COUNTY TRANSPORTATION COMMISSION

SINGLE AUDIT REPORT ON FEDERAL AWARDS

Year Ended June 30, 2008

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Board of Commissioners
Ventura County Transportation Commission
Ventura, California

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ventura County Transportation Commission (Commission) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2008-1 through 2008-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all the deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies identified above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other certain matters we reported to the management of the Commission in a separate letter dated November 10, 2008.

The Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Commission's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information of the Board of Commissioners and management of the Commission and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine California
November 10, 2008

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the Ventura County Transportation Commission (Commission) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2008. The Commission's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commission's compliance with those requirements. In our opinion, the Commission complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Board of Commissioners
Ventura County Transportation Commission
Ventura, California

Internal Controls Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

A control deficiency in the Commission's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Commission's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commission as of and for the year ended June 30, 2008, and have issued our report thereon dated November 10, 2008. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Board of Commissioners
Ventura County Transportation Commission
Ventura, California

This report is intended solely for the information of the Board of Commissioners, management of the Commission, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
November 10, 2008

VENTURA COUNTY TRANSPORTATION COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

Federal Grantor/ Pass-through Grantor/ Program Title	Federal Domestic Assistance Number	Grant Number	Federal Financial Assistance Expenditures		Amount Provided to Subrecipients
U.S. Department of Transportation					
Direct Assistance:					
Formula Grants - Urbanized Area Formula Program	20.507	CA-04-0016	$ 17,362		17,362
Formula Grants - Urbanized Area Formula Program	20.507	CA-05-0213	1,385,350		-
Formula Grants - Urbanized Area Formula Program	20.507	CA-05-0007	191,400		-
Formula Grants - Urbanized Area Formula Program	20.507	CA-09-Y177	46,066		46,066
Formula Grants - Urbanized Area Formula Program	20.507	CA-12-X001	40,884		-
Formula Grants - Urbanized Area Formula Program	20.507	CA-90-X959	817,315		817,315
Formula Grants - Urbanized Area Formula Program	20.507	CA-90-X987	14,576		14,576
Formula Grants - Urbanized Area Formula Program	20.507	CA-90-Y095	14,036		14,036
Formula Grants - Urbanized Area Formula Program	20.507	CA-90-Y253	22,132		22,132
Formula Grants - Urbanized Area Formula Program	20.507	CA-90-Y365	642,234		162,683
Formula Grants - Urbanized Area Formula Program	20.507	CA-90-Y399	1,681,230		838,166
Formula Grants - Urbanized Area Formula Program	20.507	CA-90-Y611	1,174,835		332,891
Formula Grants - Urbanized Area Formula Program	20.507	CA-90-Y522	4,585,220		670,598
		Sub-total	10,632,640	*	2,935,825
Passed through the California Association of Governments:					
Highway Planning and Construction:					
Ventura County 2% Impl	20.205	08-065-VCGS2	30,000		-
General Plan Land Use Update	20.205	07-040-VCGS1	2,844		2,844
2040 Pop Forecast	20.205	07-055-VCGS2	47,987		47,987
Building/Energy Efficient Guideline	20.205	07-055-VCGS1	83,928		83,928
Roads and Biodiversity	20.205	07-020-VCGS1	48,316		48,316
Roads and Biodiversity	20.205	08-020-VCGS1	6,784		6,784
2040 Pop Forecast	20.205	08-055-VCGS2	13,444		13,444
Passed through the State of California Department of Transportation:					
Highway Planning and Construction:					
Rideshare Grant	20.205	CMLG-6155(052)	307,392		-
GRH Grant	20.205	CMLG-6155(018)	5,581		-
La Conchita	20.205	CML-6155(052)	28,823		-
SP Mill	20.205	RPSTPLE-6155(057)	122,930		-
Lewis Road Project	20.205	RPSTPLE-6155(055)	2,192,167		-
		Sub-total	2,890,196		203,303
Total U.S. Department of Transportation			13,522,836		3,139,128

See Note to Schedule of Expenditures of Federal Awards.

VENTURA COUNTY TRANSPORTATION COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

Federal Grantor/ Pass-through Grantor/ Program Title	Federal Domestic Assistance Number	Grant Number	Federal Financial Assistance Expenditures	Amount Provided to Subrecipients
U.S. Department of Health and Human Services				
Direct Assistance:				
Special Programs for the Aging Title III	93.044	3B0577070412R2	75,421	66,500
Total federal expenditures			$ 13,598,257	3,205,628

* Major Program

See Note to Schedule of Expenditures of Federal Awards.

VENTURA COUNTY TRANSPORTATION COMMISSION

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the Ventura County Transportation Commission (Commission) that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the Commission from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recognized when the Commission becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

(c) Subrecipients

During the fiscal year ended June 30, 2008, the Commission provided $3,205,628 in federal awards to subrecipients.

VENTURA COUNTY TRANSPORTATION COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2008

(A) Summary of Auditors Results

1. An unqualified report was issued by the auditors on the financial statements of the auditee.

2. The audit disclosed four significant deficiencies and no material weaknesses in internal control.

3. The audit disclosed no noncompliance which is material to the financial statements of the auditee.

4. There were no material weaknesses in internal control over major programs of the auditee.

5. An unqualified report was issued by the auditors on compliance for major programs.

6. The audit disclosed no audit findings required by the auditors to be reported under paragraph .510(a) of OMB Circular A-133.

7. The major program of the auditee was the U.S. Department of Transportation – Formula Grants (Urbanized Area Formula Program.

8. The dollar threshold used to distinguish Type A and Type B programs was $407,948.

9. The auditee met the criteria to be classified as a low risk auditee for the year ended June 30, 2008 for major program determination.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

(2008-1) Ethics Policy

While making inquiries with management as required by *Statement of Auditing Standard No. 99 – Consideration of Fraud in a Financial Statement Audit*, it was noted that the Commission does not currently have a formal ethics policy. A formal ethics policy can be an effective method of communicating and reinforcing an antifraud culture within an organization. An ethics policy communicates to all employees the Commission's position and policy on matters such as the following:

- Risks that the Commission faces from fraud, abuse and other forms of misconduct;

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS (Continued)

(2008-1) Ethics Policy (Continued)

- An ethical code of conduct;
- Definitions of ethical misconduct, including fraud and abuse;
- Employee's responsibility to report suspected ethical misconduct (including an established reporting mechanism, such as a member of the Board of Commissioners, a designated member of Commission management, hotline service, etc.);
- Organizational responsibility to investigate; and
- Disciplinary action for violations

Sound internal controls provide are established with a tone at the top, such as the development and enforcement of an ethics policy that is appropriate for the size and complexity of the organization.

Recommendation

We recommend that the Commission establish a formal ethics policy and require all new employees to review and sign a certification acknowledging they agree to abide by the policy. We further recommend that all employees review the policy and sign the certification on an annual basis.

Management's Response

Ethics are of the highest concern in any agency entrusted with public funds as such an agency, the Commission under the guidance of its Executive Director is preparing an ethics policy for adoption by our governing Board. The new ethics policy will go well beyond the policy currently contained in the Commission's personnel manual to ensure that unethical behavior is not tolerated and will be met with the appropriate disciplinary and corrective action.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS (Continued)

(2008-2) Transportation Contract Management Procedures

The Commission currently contracts with Coach USA to provide regional bus operations and with FATCO to provide local transit service. Both companies are responsible for the collection of fares, depositing cash receipts, and reporting cash receipts, ridership and vehicle service hours to the Commission, along with a host of other performance and maintenance requirements. The Commission receives data from the contractors and reconciles the cash receipt to the bank deposits. Variances between the cash reported and deposited do often occur. The Commission does not currently review the reported vehicle service hours to ensure they are supported by tripsheets, nor investigate cash discrepancies. The companies are compensated on a time and materials basis based upon the number of vehicle service hours in a given month.

During the year ended June 30, 2008, the Commission paid $6,169,984 to both companies for services. As the amounts by which the companies are paid are self-reported, and given the significant amount of the contract, sound internal controls require that these contracts be monitored closely to ensure that the Commission is receiving all the services for which it is paying.

Management's Response

The management of the Commission agrees that implementing a comprehensive monitoring program of its two contract transit operators will improve the Commission's capability to proactively manage the transit service contractors. The recommendations contained in the above section are not unreasonable but present challenges given the Commission's very scarce financial and staff resources. Management believes that the structure of the agreements with the two contractors and our responsibility of establishing schedules address the second bullet under the recommendation section in that we set the schedule for the VISTA Intercity Service and thus set the hours of service and in turn will only pay the contractor for those hours. In the instance of the Dial-A-Ride service, the contractor provides the Commission with monthly service reports and Commission staff manages that contract on a monthly basis to ensure that monthly and annual contract budgets are not exceeded. The other recommendations, while not unreasonable, are extremely staff intensive and may not recognize the Commission's limited financial and staff resources nor the distinct likelihood that State funding for transit services has been drastically reduced over the last several years and that those funding cuts are only going to get worse given the State's financial turmoil. The Commission will need to consider a variety of either revenue enhancers, such as fare increases, management fees, or tax increases, or alternatively reduce transit services to both the transit dependent community and "choice" riders who are for the first looking to transportation alternatives to the single occupant vehicle. Those complicating factors noted,

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS (Continued)

(2008-2) Transportation Contract Management Procedures (Continued)

the Commission's management does agree with the auditors' recommendations and will work to identify resources that can be used to improve the monitoring and management of these two critical transit service provider contracts.

(2008-3) Financial Management System

The Commission currently utilizes Peachtree accounting software to record its general ledger, cash receipts, payroll and cash disbursements activities. This accounting software has limitations for an entity reporting its transactions in accordance with fund accounting requirements. Commission staff has worked around the system through the preparation of several manual adjustments required in order to consolidate and eliminate data between the Commission, Vista and Santa Paula Branch Line, as well as all of the activity associated with the issuance of bonds and the associated construction activity. As the Commission has grown, these manual adjustments have become more complex and increase the risk that the Commission's financial statements could be materially misstated.

Recommendation

We recommend that the Commission consider implementing a new accounting system that meets the governmental fund accounting and reporting requirements and includes the following modules at minimum: cash receipts, payroll, cash disbursements, capital assets and general ledger.

Management's Response

Accurate accounting records are an integral part of the Commission's responsibility and accountability to the public as are working within the constraints of a limited publicly funded budget. While we recognize the Commission's financial software has limitations, staff has continued to present accurate financial reports through manual adjustments and other tracking means as appropriate despite the budgetary growth and complexity of the Commission's activities.

Taking on a new budgetary format necessitated the creation of more robust reporting and tracking features within the Commission's existing financial software package, "Peachtree." The Chief Financial Officer created these new features in order to live within both the budgetary and staffing constraints the Commission operates under. The implementation of new accounting software will be a costly and time intensive endeavor and must be considered

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS (Continued)

(2008-3) Financial Management System (Continued)

carefully so that the current level of accounting integrity is maintained until a new and fully functioning system can brought on-line. Appropriate software will be sought out but it must meet funding and staffing constraints.

(2008-4) Improvement in Bank Reconciliation Process

The Executive Director reviews the monthly bank reconciliation by comparing the reconciled balance on the bank reconciliation with the total cash and investments recorded in the Commission's general ledger. Since both the Chief Financial Officer and Accounting Clerk have significant roles in the cash receipting, cash disbursements and payroll processes and have the ability to post entries to the general ledger, there is an increased risk that unauthorized payments could be made without being detected by the Executive Director.

Recommendation

We recommend that the unopened bank statements are received directly by the Executive Director. In addition, we recommend that the Executive Director open the bank statements and scan the debits to the accounts for reasonableness. The Executive Director should also scan the cleared checks for payments to vendors for reasonableness.

Management's Response

The Chief Financial Officer recognizes the necessity of segregating accounting duties and took significant action and created a full time position, "Accounting Clerk," to address this issue. Two full time accounting positions within the sixteen person staff of the Commission is a substantial allocation of resources to ensure that internal controls are in place and enforced.

The Chief Financial Officer's role has been to look for additional opportunities to implement additional internal controls and has requested that staff outside of the accounting department be tasked with control responsibilities. One such example is having the Executive Director review the monthly bank reconciliation.

Additional control measures were recently enacted in regard to the bank reconciliation process. In April, the Executive Director began receiving the unopened bank statements and cleared checks and scans the debits to the accounts for reasonableness before the reconciliation process begins. The Executive Director continues to review the reconciled bank statements at the end of the monthly financial cycle.

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) at OMB Circular A-133

There are no auditors' findings required to be reported in accordance with paragraph .510(a) at OMB Circular A-133.

VENTURA COUNTY TRANSPORTATION COMMISSION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2008

There were no single audit findings issued during fiscal year ended June 30, 2007.

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Board of Commissioners
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Ventura, California

In planning and performing our audit of the financial statements of the Ventura County Transportation Commission ("the Commission") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Commission's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. Matters conforming to this definition are described below.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control. Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

(1) Ethics Policy

While making inquiries with management as required by *Statement of Auditing Standard No. 99 – Consideration of Fraud in a Financial Statement Audit*, it was noted that the Commission does not currently have a formal ethics policy. A formal ethics policy can be an effective method of communicating and reinforcing an antifraud culture within an organization. An ethics policy communicates to all employees the Commission's position and policy on matters such as the following:

- Risks that the Commission faces from fraud, abuse and other forms of misconduct;

(1) Ethics Policy (Continued)

- An ethical code of conduct;
- Definitions of ethical misconduct, including fraud and abuse;
- Employee's responsibility to report suspected ethical misconduct (including an established reporting mechanism, such as a member of the Board of Commissioners, a designated member of Commission management, hotline service, etc.);
- Organizational responsibility to investigate; and
- Disciplinary action for violations

Sound internal controls provide are established with a tone at the top, such as the development and enforcement of an ethics policy that is appropriate for the size and complexity of the organization.

Recommendation

We recommend that the Commission establish a formal ethics policy and require all new employees to review and sign a certification acknowledging they agree to abide by the policy. We further recommend that all employees review the policy and sign the certification on an annual basis.

Management's Response

Ethics are of the highest concern in any agency entrusted with public funds as such an agency, the Commission under the guidance of its Executive Director is preparing an ethics policy for adoption by our governing Board. The new ethics policy will go well beyond the policy currently contained in the Commission's personnel manual to ensure that unethical behavior is not tolerated and will be met with the appropriate disciplinary and corrective action.

(2) Transportation Contract Management Procedures

The Commission currently contracts with Coach USA to provide regional bus operations and with FATCO to provide local transit service. Both companies are responsible for the collection of fares, depositing cash receipts, and reporting cash receipts, ridership and vehicle service hours to the Commission, along with a host of other performance and maintenance requirements. The Commission receives data from the contractors and reconciles the cash receipt to the bank deposits. Variances between the cash

(2) Transportation Contract Management Procedures (Continued)

reported and deposited do often occur. The Commission does not currently review the reported vehicle service hours to ensure they are supported by tripsheets, nor investigate cash discrepancies. The companies are compensated on a time and materials basis based upon the number of vehicle service hours in a given month.

During the year ended June 30, 2008, the Commission paid $6,169,984 to both companies for services. As the amounts by which the companies are paid are self-reported, and given the significant amount of the contract, sound internal controls require that these contracts be monitored closely to ensure that the Commission is receiving all the services for which it is paying.

Recommendations

We recommend that the Commission establish a monitoring program of both contractors that will include, at a minimum:

- Reviewing the reported vehicle service hours to ensure they are properly supported by tripsheets;
- Reviewing the vehicle service hours to ensure that they are reported in accordance with the terms of the agreement;
- Reviewing internal controls surrounding the collection of fares, deposit procedures and reporting of fare revenue; and
- Conducting periodic surprise cash counts.

Management's Response

The management of the Commission agrees that implementing a comprehensive monitoring program of its two contract transit operators will improve the Commission's capability to proactively manage the transit service contractors. The recommendations contained in the above section are not unreasonable but present challenges given the Commission's very scarce financial and staff resources. Management believes that the structure of the agreements with the two contractors and our responsibility of establishing schedules address the second bullet under the recommendation section in that we set the schedule for the VISTA Intercity Service and thus set the hours of service and in turn will only pay the contractor for those hours. In the instance of the Dial-A-Ride service, the contractor provides the Commission with monthly service reports and Commission staff manages that contract on a monthly

(2) Transportation Contract Management Procedures (Continued)

basis to ensure that monthly and annual contract budgets are not exceeded. The other recommendations, while not unreasonable, are extremely staff intensive and may not recognize the Commission's limited financial and staff resources nor the distinct likelihood that State funding for transit services has been drastically reduced over the last several years and that those funding cuts are only going to get worse given the State's financial turmoil. The Commission will need to consider a variety of either revenue enhancers, such as fare increases, management fees, or tax increases, or alternatively reduce transit services to both the transit dependent community and "choice" riders who are for the first looking to transportation alternatives to the single occupant vehicle. Those complicating factors noted, the Commission's management does agree with the auditors' recommendations and will work to identify resources that can be used to improve the monitoring and management of these two critical transit service provider contracts.

(3) Financial Management System

The Commission currently utilizes Peachtree accounting software to record its general ledger, cash receipts, payroll and cash disbursements activities. This accounting software has limitations for an entity reporting its transactions in accordance with fund accounting requirements. Commission staff has worked around the system through the preparation of several manual adjustments required in order to consolidate and eliminate data between the Commission, Vista and Santa Paula Branch Line, as well as all of the activity associated with the issuance of bonds and the associated construction activity. As the Commission has grown, these manual adjustments have become more complex and increase the risk that the Commission's financial statements could be materially misstated.

Recommendation

We recommend that the Commission consider implementing a new accounting system that meets the governmental fund accounting and reporting requirements and includes the following modules at minimum: cash receipts, payroll, cash disbursements, capital assets and general ledger.

Management's Response

Accurate accounting records are an integral part of the Commission's responsibility and accountability to the public as are working within the constraints of a limited publicly funded budget. While we recognize the Commission's financial software has limitations, staff has continued to present accurate financial reports through manual

(3) Financial Management System (Continued)

adjustments and other tracking means as appropriate despite the budgetary growth and complexity of the Commission's activities.

Taking on a new budgetary format necessitated the creation of more robust reporting and tracking features within the Commission's existing financial software package, "Peachtree." The Chief Financial Officer created these new features in order to live within both the budgetary and staffing constraints the Commission operates under. The implementation of new accounting software will be a costly and time intensive endeavor and must be considered carefully so that the current level of accounting integrity is maintained until a new and fully functioning system can brought on-line. Appropriate software will be sought out but it must meet funding and staffing constraints.

(4) Improvement in Bank Reconciliation Process

The Executive Director reviews the monthly bank reconciliation by comparing the reconciled balance on the bank reconciliation with the total cash and investments recorded in the Commission's general ledger. Since both the Chief Financial Officer and Accounting Clerk have significant roles in the cash receipting, cash disbursements and payroll processes and have the ability to post entries to the general ledger, there is an increased risk that unauthorized payments could be made without being detected by the Executive Director.

Recommendation

We recommend that the unopened bank statements are received directly by the Executive Director. In addition, we recommend that the Executive Director open the bank statements and scan the debits to the accounts for reasonableness. The Executive Director should also scan the cleared checks for payments to vendors for reasonableness.

Management's Response

The Chief Financial Officer recognizes the necessity of segregating accounting duties and took significant action and created a full time position, "Accounting Clerk," to address this issue. Two full time accounting positions within the sixteen person staff of the Commission is a substantial allocation of resources to ensure that internal controls are in place and enforced.

The Chief Financial Officer's role has been to look for additional opportunities to implement additional internal controls and has requested that staff outside of the

(4) Improvement in Bank Reconciliation Process (Continued)

accounting department be tasked with control responsibilities. One such example is having the Executive Director review the monthly bank reconciliation.

Additional control measures were recently enacted in regard to the bank reconciliation process. In April, the Executive Director began receiving the unopened bank statements and cleared checks and scans the debits to the accounts for reasonableness before the reconciliation process begins. The Executive Director continues to review the reconciled bank statements at the end of the monthly financial cycle.

In addition, we observed the following other matters, which were not deemed to be significant deficiencies or material weaknesses and offer these comments and suggestions.

(5) Improvement in Purchasing Process

The Receptionist orders various office supplies (sometimes on the internet) and is also responsible for verifying the receipt of goods. As a result, there is an increased risk that unauthorized supplies could be purchased without being detected by management.

Recommendation

We recommend the verification of receipts of goods is performed by someone other than the individual responsible for ordering office supplies. The person verifying the receipt of goods should sign the packing slip. The packing slip should be attached to the vendor invoice before it is submitted to the Finance Department for payment.

Management's Response

The Commission's office supplies were purchased and received by the receptionist. Upon recommendation by the auditors, last March these duties were segregated. The Receptionist continues to order the office supplies but the Office Manager now checks the order upon arrival and approves the invoice. The auditors have further recommended that the person reviewing the order sign off on the packing slip and attach it to the invoice. The Office Manager began signing off on the packing slips in November and attaching it to the invoice.

(6) Update Purchasing Policy

The Board of Commissioner's approved Resolution No. 2005-08 in October 2005 to revise the purchasing authority of the Executive Director. The Resolution grants the Executive Director authority to execute contracts on behalf of the Commission for goods and services up to $50,000 without prior approval from the Board of Commissioners. However, the Commission's written purchasing policy has not been updated to reflect this change.

Recommendation

We recommend that the Commission update its current purchasing policy to incorporate the change implemented by the Board's Resolution.

Management's Response

The Commission's management agrees that updating the current purchasing and procurement policy is necessary and appropriate. As stated in the auditors' letter, the Commission approved Resolution No. 2005-08 in October 2005 to revise the purchasing authority of the Executive Director. Management has conferred with the Commission's General Counsel and jointly we have concluded that to update the current purchasing and procurement policy, we must simply take administrative action to incorporate the actions included in Resolution 2005-08 into the current written policy.

(7) Written Accounting Policies and Procedures

The Commission's current written accounting policies and procedures have not been updated to reflect changes in staff duties and responsibilities. A well-structured accounting policies and procedures manual can be very helpful in ensuring that proper procedures and related internal controls are in place and consistently followed, and can make transitions smoother should the Commission experience unexpected turnover.

Recommendation

We recommend that the Commission update its accounting policies and procedures manual addressing, at a minimum, the following areas:

- The cash receipting process;
- The cash disbursements process;
- The daily and monthly bank reconciliation process;

(7) Written Accounting Policies and Procedures (Continued)

- The payroll processing process; and
- Policy establishing a threshold for capitalizing capital assets.

Management's Response

The Chief Financial Officer is tasked with keeping all accounting policies and procedures up to date and this is a dynamic process in the age of continuing changes in accounting and accountability. As current as April of this year, the Chief Financial Officer updated the written accounting procedures to reflect the improvements made in the Commission's operations. Checklists were also developed to facilitate the accounting processes and all areas of the accounting process were updated including the cash receipts process, the cash disbursement process, the bank reconciliation process, the payroll process and the threshold for capitalization.

We appreciate the opportunity to present these comments and suggestions and can discuss these matters further at your convenience, along with any implementation assistance for changes and improvements you may require.

The Commission's written responses to the significant deficiencies identified in our audit are described above. We did not audit the Commission's responses, and accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the Board of Commissioners, management of the Commission, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
November 10, 2008

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Board of Commissioners
Ventura County Transportation Commission
Ventura, California

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Ventura County Transportation Commission ("Commission") for the year ended June 30, 2008, and have issued our report thereon dated November 10, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

Our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Commission's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to its major federal program for the purpose of expressing an opinion on the Commission's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Commission's compliance with those requirements.

Board of Commissioners
Ventura County Transportation Commission
Ventura, California

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

Audit fieldwork was substantially completed by September 26, 2008. We performed the audit according to the planned scope and timing previously communicated to you in our letter dated September 2, 2008. As communicated to you in our letter, potential significant risks of material misstatement that were reviewed by our auditing procedures included:

- Risk of material fraud or misstatement associated with the Commission's cash receipts and cash disbursements;
- Risk of improper revenue recognition;
- Risk of improper classification of expenditures;
- Risk associated with identifying capital assets additions and deletions;
- Risk of unallowable interfund transfers; and
- Risk of non-compliance with grant program requirements

Significant Audit Findings

We have separately reported to you in our letter dated November 10, 2008 of control deficiencies we believe deserve your attention. We did not identify any deficiencies in internal control we consider to be material weaknesses.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. We will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Examples of significant judgments and estimates reflected in the Commission's financial statements include:

- Judgments involving the useful lives and depreciation methodology to use for capital assets, including infrastructure;
- Judgments concerning which capital projects expenditures should be capitalized and depreciated versus expensed in the government-wide financial statements; and
- Judgments concerning whether an accrual for incurred but not reported claims for workers compensation and general liability should be estimated and recorded at year end.

Management's estimate of claims payable is based on settlements and judgments during the past three fiscal years. None of the settlements and judgments exceeded the Commission's pooled or insured coverage and there have been no significant reductions in the Commission's pooled or insured liability coverage from coverage in the prior year. As a result, the Commission has not estimated and accrued an amount for claims payable as of June 30, 2008. We evaluated the key factors and assumptions used to develop the Commission's decision to not record claims payable and determined that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in performing and completing our audit

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Board of Commissioners
Ventura County Transportation Commission
Ventura, California

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 10, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Commissioners and management of the Ventura County Transportation Commission and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
November 10, 2008